

STATE OF WASHINGTON



**OFFICE OF
INSURANCE COMMISSIONER**

**TECHNICAL ASSISTANCE ADVISORY
T 01-02**

To: Authorized Property/Casualty Insurers

Attention: State Filings Manager

Subject: Supporting Information for Tier Factors and Rating Factors Involving Credit History

Date: November 6, 2001

The purpose of this technical assistance advisory is to clarify the requirements of RCW 48.19.040(2) with respect to personal lines rate filings involving rating tiers or including factors based on the credit history of the insured or applicant.

It is important to note first that the Office of Insurance Commissioner (OIC) is currently reviewing public policy issues associated with personal lines insurers' use of credit history. It is also likely that the 2002 Legislature will be considering some of these issues. Insurers should read this technical assistance advisory as an explanation of current law and OIC expectations, understanding that these could change as the issues are reviewed.

Background:

Under the provisions of RCW 48.19.040(2), every rate filing "must be accompanied by sufficient information to permit the commissioner to determine whether it meets the requirements of [Chapter 48.19 RCW]." In particular, OIC must be able to determine that the proposed rates are not excessive, inadequate, or unfairly discriminatory, as required by RCW 48.19.020.

When an insurer uses or proposes to use rating tiers or rating factors involving credit history, OIC's task is especially difficult. The criteria used to define the rating tiers may be correlated with rating variables already in use. Insurance scores involving credit history may also be correlated to other rating variables. The effect of any such relationships among rating variables should be considered in the ratemaking process. In many cases, an insurer's traditional rating

factors were selected without any thought that the insurer might use rating tiers or credit history in the future. When the insurer first proposes tier factors or credit-history rating factors, it may give little thought to the possibility that rating factors already in use might need to be adjusted in light of the new rating system.

OIC would like to avoid surprising insurers with requests for data in the rate review process. OIC is issuing this technical assistance advisory so that all filers will know in advance the kind of analysis that will be expected in support of rating tier factors and factors involving credit history. If this kind of analysis is included at the time a rate filing is submitted, the rate approval process will move forward more quickly. OIC is committed to the prompt—but thorough—review of property/casualty rate filings.

Requirement:

This requirement applies to personal lines rate filings in which an insurer proposes to segment its Washington business by rating tier or proposes to use a rating system involving the credit history of the insured. The requirement also applies to filings involving changes to any of these rating systems or factors.

A sound multivariate statistical analysis supporting the proposed rating system is required. This analysis should not assume that all currently used rating factors are correct. Rather, it should evaluate all rating factors in light of the insurer's plan for tier rating or rating by credit history. (For example, a "one-way" analysis of loss ratios by tier or credit-score range would not be sufficient supporting information.) The analysis should be based on the experience of the insurer or affiliated insurers under the same management. The analysis may include data from other states, as permitted by RCW 48.19.030(3)(a). The filing must also show clearly how the insurer's proposed rating factors are derived from the results of the analysis.

This requirement applies to filings received by OIC on or after March 1, 2002.

Contact person:

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